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The internationalization of small and medium enterprises: the role of proactiveness and networks

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Abstract

This study analyzes how exporters begin their internationalization leveraging information collected through interviews with 109 Chinese textile manufacturers. It examines whether firms that found their first international clients through a “proactive” search are likely to export faster, more intensively, and to a larger number of markets. The findings illustrate that the proactiveness of the search for the first client in a foreign market is an important predictor of the intensity and geographic scope of the firm’s internationalization path but not of its speed. They support the view of internationalization as an actively pursued entrepreneurial process, which may also be affected by serendipitous events. This study provides new evidence on the first international business discovery of Chinese exporters, contributing to the literature on international entrepreneurship, international new ventures and the network approach to internationalization.

1. Introduction

One of the highly debated aspects of international entrepreneurship is the importance of having a proactive attitude towards the discovery of international business opportunities (Dimitratos and Jones, 2005; Jones, Coviello, and Tang, 2011; Kiss, Williams, and Houghton, 2013; Naudé and Rossouw, 2010; Zhang, Tansuhaj, and McCullough, 2009; Amal and Freitag Filho, 2010; Kontinen and Ojala, 2012). Some scholars argue that the search for international business opportunities is an active cognitive process (McDougall and Oviatt, 2000; Kiss et al, 2013). Other scholars point that entrepreneurs can also react to opportunities that they did not actively search (Brewer, 2001; Zahra, Korri and Yu, 2005; Liu, Xiao and Huang, 2008; Amal, Freitag Filho, 2010). This study contributes to the literature on international business and international entrepreneurship by analyzing whether proactiveness in the search for the first international business opportunity affects three dimensions of internationalization performance: its speed, intensity and geographic scope (Oviatt and McDougall, 1994). A large body of empirical evidence illustrates the importance of networks as entrepreneurial resources (Jacks, 2008), though their use in internationalization remains a somewhat controversial issue (Li, Poppo and Zhou, 2008; Solberg, and Durrieu, 2006). We contribute to the literature by examining the mechanisms through which Chinese entrepreneurs searched for and found their first international client (Evers and Knight, 2008; Ellis and Pecotich, 2001; McDougall and Oviatt, 2000; Shane and Venkataraman, 2000). We analyze whether the first international business opportunities generated through networks differ from those generated through other mechanisms in terms of their effect on the subsequent internationalization of the firm, in particular the percentage of total sales targeted

to foreign markets, the time elapsed between foundation and the first international sale, and the number of markets it exports to.¹

Responding to calls for more research on small and medium enterprises (SMEs) based in emerging markets, low technology exporters, and the inception of internationalization (Madsen and Servais, 1997; Coviello and Jones, 2004; Coviello, 2006; Filatotchev, Liu, Lu and Wright, 2011; Autio, George and Alexy, 2011), we examine the first export of Chinese textile SMEs. We test a set of hypotheses about international business opportunity discovery and the importance of a proactive search on SMEs based in Guangdong, a region whose outstanding economic performance has been driven precisely by a wealth of globally competitive manufacturing exporters (Thoburn, 2010).

The next section discusses the literature on international business opportunity recognition and networks, explaining why it is important to gather more empirical evidence on the process through which firms begin to internationalize. The following section outlines the data collection strategy and describes the sample of firms used in the study. The final sections discuss the findings, highlighting their implications for international entrepreneurship and suggesting future research avenues.

2. Literature review

The opportunity recognition mechanism is a fundamental dimension of entrepreneurship (Ardichvili, Cardozo, and Ray, 2003; Shane, 2000; Kiss et al, 2012; Brettel and Rottenberger, 2013). Penetrating a new market is an entrepreneurial process because it entails searching for opportunities, recognizing them, and creating exchange relationships in locations where they

¹ We use the term “network” to refer broadly to all the types of relationships that the senior manager in charge of the first international used to achieve firm-related objectives. This includes her personal contacts, such as family ties, and also contacts with managers of networked companies, such as suppliers and clients.

did not previously exist, and often among partners that were not engaged in trade (Chandra, Styles and Wilkinson, 2009; Schumpeter, 1934; Zahra et al., 2005). The first time a company enters a foreign market entails risk, resource commitment, and venturing into new, and not entirely predictable, exchanges (McDougal and Oviatt, 2000; Shane and Venkataraman, 2000; Dimitratos and Jones, 2005).

The first international venture launches the firm into a new strategic path, such as developing products and entry strategies for different sets of foreign clients. If entering a new foreign market is an act of entrepreneurship, entering a foreign market for the first time is the foundation of the series of events studied in international business, as it entails not only penetrating a yet unknown market, but also engaging in internationalization – a process yet unknown to the firm (Chandra, Styles and Wilkinson, 2009; Schumpeter, 1934; Zahra et al., 2005).

The inception of internationalization may also affect the subsequent international expansion of the firm (Naudé and Rossouw, 2010; Amal and Freitag Filho, 2010). Export speed, the time elapsed between the firm foundation and the first export, has attracted particular attention in the international business literature (Andersson, S. and Wictor, 2003; Bell, Crick and Young, 2004; Lopez, Kundu and Ciravegna, 2009; Zhou, Wu and Luo, 2007). The literature on born globals, for example, emerged from the observation that some firms internationalized fast instead of gradually accumulating capabilities and resources as postulated by the gradual internationalization theories (Bell, 1995; Crick, 2009; Madsen and Servais, 1997; Knight and Cavusgil, 2004). However, evidence on the inception of internationalization remains scarce (Ellis, 2011; Zhang, Tansuhaj, and McCullough, 2009). For this reason we choose to study the process through which Chinese exporters began their internationalization – an aspect of internationalization, which, despite its importance, is still

under-represented in the literature (Agndal, Chetty and Wilson, 2008; Ojala, 2009; Javalgi and Todd, 2011; Kiss et al, 2012).

To create new exchanges entrepreneurs, intended as the actors who perform the entrepreneurial act of internationalizing, scan for potential opportunities in the new foreign market, evaluate available information, and decide whether to exploit any of the opportunities they found (Shane and Venkataraman, 2000). Several scholars point that a proactive attitude in the search for opportunities is one of the distinguishing features of international entrepreneurship, which may have effects on firm performance (Lumpkin and Dess, 1996; McDougall and Oviatt, 2000; Shepherd and De Tienne, 2005; Andersonn and Evangelista, 2006).

The idea that a proactive attitude has positive effects on the internationalization of a firm is corroborated by international business scholars, who, albeit from a different theoretical perspective, highlight the importance of having a clear plan for internationalization and a strong organizational commitment to it (Herron and Sapienza, 1992; Johanson and Vahlne, 1990). Examining a sample of Australian exporters Beamish, Karavis, Goerzen and Lane (1999) found that the firms with a stronger commitment to internationalize, such as those establishing separate organizational units to manage exports, achieved higher average export revenues. The literature on services and post sale client management also points out the importance of a proactive attitude, albeit discussing it within a different theoretical context (Guenzi, 2003; De Jong and De Ruyter, 2004).

Some scholars of entrepreneurship argue that the discovery of business opportunities, both in the domestic and international market, does not necessarily stem from a proactive attitude or a clearly planned strategy (Ardichvili et al., 2003). Entrepreneurs may come across the first opportunity to internationalize serendipitously, and simply exploit it as part of a

“reactive” rather than a “proactive” and planned process (Brewer, 2001; Kontinen and Ojala, 2010). There is still scant evidence on the effects of the proactiveness of the first search for international business opportunities on the subsequent internationalization of the firm (Zahra et al., 2005; Kiss et al, 2013).

One of the key objectives of this study is to examine whether entrepreneurs’ proactiveness in the first international business opportunity discovery is associated with internationalization speed, intensity and scope. We focus on these three particular aspects of internationalization performance because there is a heated debate about the factors determining how fast, how intensively and how “globally” a firm internationalizes (Crick, 2009; Mort and Weerawardena, 2006). Although internationalization speed, intensity and scope may be insufficient to understand the *effects* of international activities on firm performance, they are important dimensions of a firm’s international expansion (Lu and Beamish, 2001; Madsen and Servais, 1997). The literature on born global and international new ventures, for example, discusses which firms should be defined “born global” or “born regional”, and also degrees of “born globalness” by looking at export speed, intensity and geographic scope (Knight and Cavusgil, 2004; Lopez et al., 2009; Crick, 2009; Kuivalainen, Sundqvist, and Servais, 2007).

Companies use different strategies to search for their first clients in new foreign markets. These include trade fairs, advertizing, and different types of networks (Kontinen and Ojala, 2011; Seringhaus and Botschen, 1991). In China the use of social ties as a resource is linked with the ancient tradition of relying on inter-personal, trust based networks or “guanxi” (Park and Luo, 2001; Xin and Pearce, 1996; Ma, Yao, and Xi, 2009). Zhou, Wu and Luo (2007, p. 676) argue that firms use informal social networks “as a pre-emptive strategy to access information and deploy the relevant resources in a timely and flexible fashion”. Numerous studies illustrate that in China the use of guanxi by both Chinese and foreign firms is

pervasive (Peng and Luo, 2000; Luk, Yau, Sin, Tse, Chow and Lee, 2008; Standifird and Marshall, 2000; Zhou, Wu and Luo, 2007).

There are still many areas where further empirical evidence is needed to advance the development of networks and their effects, for example, whether using networks has a positive effect on performance (Kontinen and Ojala, 2011; Harris and Wheleer, 2005; Ellis, 2011; Luo and Hassan, 2009). In a study of 161 Chinese firms, Zhang and Li (2008) illustrate that *guanxi* contributed positively to sales' growth, which is consistent with the findings of Peng and Luo (2000) and Standifird and Marshall (2000). Examining 280 cases in the Chinese market, Li et al. (2008) found that Chinese firms benefited more from using ties than foreign firms, and that gains from using ties decline as markets consolidate and become more competitive. Luk et al. (2008) found that social ties had a stronger effect on firm performance in the closer market of China than in the more open market of Hong Kong. There is also scarce evidence on whether the use of networks is mainly a domestic phenomenon, or whether it is often and successfully used to support internationalization (Zhou et al. 2007), which is one of the areas this study investigates.

The use of networks, and particularly social networks, to support internationalization is not limited to Chinese firms (Solberg and Durrieu; 2006; Hutchinson, Alexander, Quinn, & Doherty, 2007; Chandra et al, 2009; Jacks, 2008; Elango and Pattnaik, 2007). The international business literature has formally recognized the importance of networks for the internationalization of the firm, especially in the case of small and medium enterprises (Coviello, 2006; Johanson and Vahlne, 2009). Empirical evidence corroborates the theory, showing that firms based in both developed and emerging economies often rely on networks of different types to search for, discover and exploit business opportunities in foreign markets, as well as to pursue other firm-level objectives (Agndal et al., 2008; Chandra et al.,

2009; Jacks, 2008; Kontinen and Ojala, 2011; Mort and Weerawardena, 2006; Khanna and Palepu, 2010; Ciravegna, 2011; Nadvi, 1999; Musteen et al.; 2010). Nonetheless, more evidence is needed to verify whether and how using networks affect firm performance (Kontinen and Ojala, 2011; Harris and Wheeler, 2005; Ellis, 2011; Luo and Hassan, 2009; Zhou, 2007).

Considering internationalization as an entrepreneurial process entails taking into account that it is carried out by individuals, whose experience affects the way in which it is pursued. The international experience of the managers in charge of the first international sale is recognized as an important factor for the internationalization of the firm, nonetheless because experience supports the accumulation of knowledge and the development of networks that may help finding clients in new foreign markets (Chandra et al., 2009). It is unclear, however, whether more experienced managers are more likely to actively pursue international ventures, or to use networks. For this reason, we also tested the effects of managers' international experience on different aspects of internationalization. The next section builds on the literature hereby discussed to outline the hypotheses tested in this study.

3. Hypotheses development

In the words of McDougall and Oviatt (2000: 903), international entrepreneurship is “*a combination of innovative, proactive, and risk-seeking behaviour that crosses national borders and is intended to create value in organizations*”. Entrepreneurs that actively search for international business opportunities from the early stages show a stronger and clearer commitment to internationalize. The literature on born globals and international new ventures argues that firms that have a more proactive approach to internationalization are likely to perform better than others in terms of export speed, intensity and scope (Madsen and Servais, 1997; Crick, 2009; Kuivalainen et al., 2007). Firms whose entrepreneurs proactively searched

for the first international business opportunity should be likely to internationalize faster, more intensively, and to a larger number of markets. This led to the development of the following hypothesis:

H 1: The internationalization performance of a firm, measured as percentage of sales they export, number of countries where they sell, and the time elapsed between their foundation and their first export, is positively associated with having senior managers that have taken a proactive role in searching for and discovering the first international business opportunity.

The literature on international entrepreneurship emphasizes the fact that internationalization is an entrepreneurial act, strongly affected by the characteristics of the individuals involved (Oviatt and McDougall, 2005). Scholars of entrepreneurship have documented the importance of the previous experience of entrepreneurs² as a predictor of their performance in searching for and discovering business opportunities (Shane, 2000). Exposure to international markets and familiarity with foreign clients should help managers in their search for international business opportunities (Chandra et al., 2009). Building on these arguments we built the next hypothesis:

H2 Managers who proactively searched for the first international business opportunity are likely to have had more international experience.

Developing relationships with clients, suppliers, competitors, investors and other actors requires time (Spence and Crick, 2006). The managers who have operated for longer in international markets are more likely to have developed the needed networks to support

² In this study we use the terms “managers” and “entrepreneurs” to refer to the professionals who exploited the first international business opportunity.

internationalization (Madsen and Servais, 1997; Mort and Weerawardena, 2006). The managers who have the more developed networks should be more likely to use them when searching for business opportunities (Ellis, 2011). It follows that:

H3 The use of networks for the identification of the first successful international business opportunity is more likely to occur as managerial international experience increases.

One of the difficulties of internationalizing is discovering suitable opportunities abroad (Chandra et al., 2009). Searching for clients in a new market is risky. Managers who take a proactive attitude to internationalization are likely to leverage a broad range of resources, including networks, to search for clients in new markets (Harris and Wheeler, 2005; Ojala, 2009; Ozgen and Baron, 2007; Ellis and Pecotich, 2001). There is evidence that in the Chinese context personal networks are one of the resources that entrepreneurs most frequently exploit in order to achieve the strategic objectives they are actively pursuing (Acquaah, 2007; Agndal, Chetty and Wilson, 2008; Coviello and Munro, 1997; Park and Luo, 2001; Xin and Pearce, 1996; Uzzi, 1996). This led to the hypothesis:

H4 Networks are more likely to be used for the identification of the first successful international business opportunity when managers actively searched for and recognized that first international client.

Though arguably more diffuse in the Chinese context, the use of networks has been observed in different fields and countries (Acquaah, 2007; Coviello, 2006; Chen, 2003; Agndal et al., 2008; Kontinen and Ojala, 2011). Network supported internationalization has been discussed as a typical feature of successful international ventures, such as new international ventures and born global firms (Chetty and Blankenburg Holm, 2000; Crick and Jones, 2000; Chetty and Campbell-Hunt, 2004; Loane and Bell, 2006; Mort and

Weerawardena, 2006; Moen, 2002; Mesquita and Lazzarini, 2008). The use of networks has been documented to contribute positively to firm performance (Peng and Luo, 2000) and to support internationalization (Zhao and Hsu's, 2007; Ellis, 2000). We thus developed the hypothesis:

H 5: A superior internationalization performance, in terms of the percentage of a firm's average total sales they export, the number of markets they have penetrated, and the time elapsed between their foundation and their first export, is expected when networks were used for the discovery of the first international business opportunity

4. Methods

Sampling and Data Collection

This study focuses on producers of semi-finished textiles manufactured goods, such as curtains' cloth, which serve multiple clients and are involved in exports. We examined Chinese firms because China is the first global exporter of textiles (Thoburn, 2010). Previous studies have pointed the difficulty of identifying a representative sample of SMEs in a large and diverse economy as China (Peng and Luo, 2000; Zhou, Wu and Luo, 2007). As consistent with the literature on Chinese firms, we focused on one region of China, choosing Guangdong because it concentrates a high share of textile exporters (Zhang, Tansuhaj, & McCullough, 2009).

A pilot study was carried out with 15 firms based in the city of Guangzhou, Guangdong Province. The founders or current chief executive officers of these firms were interviewed through open ended unstructured interviews lasting on average one hour, which collected qualitative information about most common mechanisms used to search for and discover business opportunities in foreign markets. On the basis of the information collected in the

pilot study, we developed a questionnaire and tested it with 5 of the exporters previously interviewed to refine the questions. The questionnaires were prepared in Chinese and back translated to English by bilingual translators as to ensure the equivalence of each measure and term used (Filatotchev et al., 2011).

The sample of firms to be included was identified using a database of textile producers of the Guangdong Province plus information provided by our interviewees during the pilot study. The inclusion criteria were to be fully Chinese owned, to have less than 250 employees – following the European Commission definition of small and medium enterprise (European Commission for Enterprise and Industry, 2011) - to have the main base in Guangdong, to be involved in exports, not to be the exclusive supplier of only one client, and to be a producer of textile fibres and semi-finished products not sold to the final customer (Autio, Sapienza, and Almeida, 2000; Chandra, Styles, Wilkinson, 2009). With the help of two independent textile industry consultants, we selected 480 firms from the Directory of SMEs Exporters. We then contacted them by phone to collect further information, and focused on 320 firms that complied with our inclusion criteria. These were contacted and 208 accepted to be interviewed (65% response rate). All the firms interviewed were involved in the processing, cutting and coloring of the products, and specialized in low cost goods. Consistently with the literature on entrepreneurship and social networks, we included in our study only the cases where the person responsible for the entrepreneurial act we examined, the first internationalization, was available for interview, which were only 132 (Jacks, 2008; Li, Atuahene-Gima, 2001; Zhang, Tansuhaj, and McCullough, 2009; Shane, 2000; Shane and Venkataraman, 2000; Uzzi, 1996). We excluded 23 further cases where the interviewee was not willing to provide information or could not remember how the first international business opportunity was discovered, and focused on 109 observations.

Interviews were carried out between January and November 2009 with the person responsible for the firm's first international sale. In the majority of cases this person was recognised as the "entrepreneur" or General Manager of the firm, and, consistently with the practice of Chinese firms, was also the founder and majority owner (Park and Luo, 2000; Peng and Luo, 2000). We collected data about the firm, such as its age, and information specific to the first export. The interviews were open-ended, semi-structured, and lasted on average one hour. The interviews were face to face, carried out in the native language of the interviewees by one of the authors without the use of a translator. This method allowed us to overcome several obstacles related to studying entrepreneurship and international business in emerging markets such as China (Peng and Luo, 2000; Zhou, Wu and Luo, 2007). We were able to gather information about small firms which is generally not available from archival sources and to avoid the problems of low response and lack of reliability affecting phone and email surveys targeted to small firms (Atuahene-Gima, 2001; Zhang, Tansuhaj, and McCullough, 2009). Most importantly, relying on face to face interviews ensured that the information collected was effectively provided by the person that took the decisions examined in this study, which is particularly relevant for the study of proactive and reactive business opportunity recognition (Ellis, 2000; Ardichvili, Cardozo, and Ray, 2003; Chandra et al, 2009 Ellis, 2000; Lumpkin and Dess, 1996; Harris and Wheeler, 2003; Shane, 2000; Zahra et al, 2005).

We asked the interviewee to explain how the firm discovered its first international business opportunity, defined this as the first finalized contract for the sale of products to a client based in a foreign market where the firm had not previously operated. We took note of these details and asked for further qualitative information about other Foreign Market Entries (FME) the interviewees were willing and/or able to talk about. We examined only the FMEs in which the interviewees took a direct role and could thus provide a detailed explanation.

When the interviewees were not directly involved in the first FME, we asked to speak to the person who negotiated the first FME. When this was not possible, or when the interviewee could not provide enough information about the first FME, the observations were excluded from the sample hereby examined.

Definitions and Measurements

In order to examine the entrepreneurial process of international business opportunity recognition, we focus only on opportunities that were successful in generating sales in new foreign markets, or FMEs (Ellis, 2000; Mort and Weerawardena, 2006; Sharma & Blomstermo, 2003). During the pilot interviews we identified several mechanisms through which the entrepreneurs discovered opportunities in new markets. These included networks (personal contacts with family members, friends, colleagues, clients, suppliers, or investors), new clients that responded to adverts, and new clients met at trade fairs (Ellis, 2000). FMEs discovered through networks were those where a previous contact of the interviewee, for example the relationship linking him/her with a supplier, was instrumental for the finalization of the exchange. FMEs discovered through advertisements occurred when a new foreign client contacted the exporter exclusively as the result of being exposed to its advertising campaign. FMEs discovered through trade fairs were those where the opportunity was found and finalized by the manager interviewed through a contact established at a trade fair, without the help or support of any antecedent personal or firm-level network. None of the firms included in this analysis used trade intermediaries to find their first FMEs. We collected information regarding the exact nature of the network-based mechanisms used for international business opportunity recognition, including close family members and close friends, neighbours, colleagues and business partners. We aggregated ties into one variable labelled as *networks*.

Lumpkin and Dess define proactiveness with the following phrase: “Proactiveness refers to how a firm relates to market opportunities in the process of new entry. It does so by seizing initiative and acting opportunistically...” (1996: 147). Drawing from studies of entrepreneurship, we conceptualized proactiveness as the extent to which entrepreneurs reported to have actively searched for the first international business opportunity they subsequently discovered (Lumpkin and Dess, 1996; Miller, 1983). To measure it, we asked the entrepreneurs whether they proactively searched for the first international business opportunity and whether they intended to internationalize at that time.

During the pilot interviews we found that entrepreneurs provided very contrasting views about their export inception. These diverging perspectives led us to develop our construct “proactiveness”, which has been summarized using a dichotomous variable that classified firms’ search for the first FME into “proactive” and “non-active” depending on the answers provided by the senior managers that discovered and negotiated the first international business opportunity. Our measure of proactiveness, albeit affected by the limitations that characterize binary variables and self-reported measures of entrepreneurial behavior, is anchored in the theoretical debate about the nature of business opportunity recognition (Ardichvili et al., 2003; Kontinen and Ojala, 2011; Shane, 2000; Zahra et al., 2005). To improve our understanding of proactiveness, we also collected qualitative evidence about the first FME of each firm examined (Robson, 2011). We asked the interviewees to describe their first international exchange, providing details on how contact between them and their buyers was initiated, the mechanisms that facilitated it, and how it was finalized. The descriptions provided by the entrepreneurs were consistent with their answers about proactiveness. Managers who actively searched for opportunities described internationalization as an objective, which they proactively pursued, as consistent with the arguments of, among others McDougall and Oviatt (2005). Managers in the “non-proactive” subgroup described their first

international sale as an opportunity that they did not actively pursue but which they exploited as it manifested itself. This was in line with the view of opportunity recognition as a reactive process (Kontinen and Ojala, 2011).

The depth of internationalization, or export intensity of firms was measured by looking at the share of total annual sales they exported in 2009. The speed of internationalization was measured by calculating the number of years between the creation of the firm and the year of establishment of the first FME. The scope of internationalization was measured by counting the number of markets the firm penetrated between its foundation and the year 2009. Additional variables were included to control for their effect on the consequent internationalization of the firms examined and methods used to identify their first exporting opportunity. Firm age was measured as the number of years between the establishment of the firm and the year when the interview was carried out. Firm size was measured as the number of official and unofficial employees working for the firm in the year 2009. Managerial international experience was measured by calculating the number of years the interviewee had been involved in export related activities in China and/or other countries. Geographic distance was calculated as the distance between the exporting firm and its client via the nearest ports, measured in nautical miles, using the software available at www.searates.com.

Information about the language spoken during the search for and discovery of each international exchange was collected in order to account for the linguistic distance between the firm and their client for each FME included in the study. This variable was eventually converted into a dummy variable discerning between FMEs that were negotiated in the native language –or similar dialect- of the senior manager of the exporting firm, or whether they were negotiated using a translator.

In order to control for the effect of the type of market where the first FME occurred we included a variable measuring income per head, defined as Gross Domestic Product (GDP) per head. The GDP control variable shows GDP per capita (in 2011 US \$) at the time each FME was initiated, as reported by the IMF World Economic Outlook indicators (IMF, 2011).

5. Analyses and Results

Our final dataset included 109 observations including general information about the firm at the current time and before starting international sales, and specific information on the firm's first FME. The aim of this analysis was to establish associations between the characteristics of the firms' first FME and their subsequent exporting behaviour. After data entry and variable codification, descriptive and inferential statistical analyses were performed using the Statistical Package for Social Science version 19. We used the 0.05 criterion of statistical significance. Observations excluded from analysis were not significantly different from the final sample in terms of firm size, firm age, language, and geographic distance between them and their first international client.

Several mechanisms through which the entrepreneurs discovered opportunities in new markets were identified; these included advertising (n= 17, 15.6 per cent), trade fairs (n= 60, 55 per cent) and the category networks (n= 32; 29.4 per cent) which incorporated business partners (n=26), and social ties unrelated to the business, such as family ties (n= 6). A total of 63 managers (57.8 per cent) considered themselves as having played a proactive role in the establishment of the firm's first FME.

Firm age was roughly normally distributed and varied between 0 and 28 years (mean= 8.1 years; standard deviation= 5.59). Firm size was also normally distributed in the sample, and varied between 4 and 250 direct employees (mean= 92.51 employees; standard deviation= 66.97). Time elapsed between the establishment of the firm and their first international sale

varied between 0 and 20 years (mean= 3.0 years), while the total number of markets where firms export varied between 1 and 30 (mean= 7.74 countries). Managerial exporting experience varied between 1 and 30 years (mean= 5.48 years). The most commonly used mechanism of international opportunity recognition was Trade Fairs (n= 60; 55 per cent), followed by Networks (n= 32; 29.4 per cent), and Advertisement (n= 17; 15.6 per cent). 16.5 per cent (n=18) of the analyzed FMEs were negotiated in the native language of the entrepreneurs without using a translator. Other descriptive statistics are summarized in Table 1.

INSERT TABLE 1

Our hypotheses were initially tested individually using general linear models and subsequently aggregated into one multiple regression model, as represented in Figure 1. Similarly, the associations between our outcome variables and covariates were tested individually. Significant predictor variables were included in the logistic regression models and the final multiple regression model described below.

INSERT FIGURE 1.

Logistic regression analysis was performed to test the hypotheses **that managers who searched proactively for the first international business opportunity are likely to have had more international experience (Hypothesis 2) and that their proactiveness is also associated with the use of social networks for the establishment of their first effective international business opportunity (Hypothesis 4)**. The binary dependent variable *Proactiveness* classified the role that managers played when recognizing and establishing the firm's first FME in two categories (proactive or non-active). Besides the main two predictor variables, managerial international experience and networks, we controlled for the effect of the foreign market GDP on proactiveness. Our data was fit for the full model (Hosmer and

Lemeshow test: Chi squared= 8.599; $p= 0.377$), which was statistically significant (Chi square= 32.238; $p= 0.000$), and explained 25.8 to 34.5 per cent of change in proactiveness (Cox & Snell R square= 0.258; Nagelkerke R square= 0.347); furthermore, each year of additional managerial international experience increased the odds of being proactive in the establishment of the first FME by 18.7 per cent (Exp B= 1.187; $p= 0.006$). The association between the use of networks and proactiveness was also statistically significant (Exp B= 0.079; $p= 0.000$), however, it was in the opposite direction of what was proposed in our hypothesis, that is, the use of networks as mechanism for international opportunity recognition for the firm's first FMEs was negatively associated with firms that had senior managers who considered themselves as playing an active role in establishing that FME.

An 80-20 cross validation technique was used to confirm the significance of the relationship between the dependent and main predictor variables. The sample was randomly split in two groups, one containing 80 per cent of observations and the other group containing the 20 per cent left. The significance of the findings of the 0.80 subsample remained comparable to those of the full model: the relationship between the dependent and main predictor variables was still significant for both managerial international experience (Exp B= 1.255; $p= 0.007$) and networks (Exp B= 0.070; $p= 0.000$). Furthermore, the classification accuracy of the 0.20 subsample was within 10 per cent of that from the 0.8 subsample (0.80 subsample accuracy: 72.7 vs. 75.0 per cent in the 0.20 subsample), verifying the utility of the logistic regression model. Relevant results of this model are summarized in table 2.

INSERT TABLE 2

A second logistic regression model was used to test the hypothesis that **the use of networks as a mechanism of international opportunity recognition is associated with having more internationally-experienced managers, compared to other methods**

(Hypothesis 3). The use of Networks was our binary dependent variable which classified observations in two groups: the ones that used networks to establish their first FME, and those who used any other method for international opportunity recognition. The main predictor variable was managerial international experience in years. Control variables accounted for in the analysis included foreign market's GDP and Proactiveness. Although the model was fit for the data (Hosmer and Lemeshow test: Chi squared = 7.970; $p = 0.436$) and statistically significant (Chi square= 25.431; $p = 0.000$), the main predictor variable, managerial international experience, did not reach significance (Exp B= 1.094; $p = 0.068$). Proactiveness, as demonstrated in the previous model, was significantly and negatively associated with the use of Networks (Exp B= 0.087; $p = 0.000$). Table 3 summarizes these findings.

A multiple analysis of covariance (MANCOVA) was performed to test the association between all three main dependent variables (export intensity, number of international sales and time elapsed) and the binary predictor variables, proactiveness (Hypothesis 1) and the use of networks (Hypothesis 5), controlling for the interaction between proactiveness and the use of networks, the effect of managerial international experience, and the rest of covariates that included foreign market's GDP per head, geographical distance, firm size, firm age and exporting time. The dependent variable "total number of FMEs" was transformed into its natural logarithm to obtain more normally distributed data, and as a result of this, the assumption of equality of variance was met (Levene's test of equality of error variances significance – p - was 0.126 for time elapsed, 0.550 for number of FMEs, and 0.418 for export intensity); similarly, the assumption of similar covariance matrix between groups was also examined and satisfied using Box's test of equality of covariance matrices ($F=1.006$; $p = 0.449$). The overall tests revealed a significant multivariate effect of proactiveness (Hotelling's T-Square= 0.173; $F_{(3,99)} = 5.436$; Partial Eta squared= 0.148; $p = 0.002$; power=

92.8 per cent), which accounted for 14.8 per cent of variance in the dependent variables representative of internationalization performance. More specifically, tests of between-subjects effects indicated that these effects were mainly significant for dependent variables export intensity (Partial Eta squared= 0.132; $p= 0.000$; power= 96.5 per cent) and total number of FMEs (Partial Eta squared= 0.062; $p= 0.014$; power= 70.1 per cent), but not significant for time elapsed (Partial Eta squared= 0.00; $p= 0.880$; power= 5.3 per cent).

The use of networks as the mechanism international opportunity recognition reached a significant overall association with our dependent variables (Hotelling's T-Square= 0.104; $F_{(3,99)}= 3.257$; Partial Eta squared= 0.094; $p= 0.025$; power= 73.1 per cent), accounting for 9.4 per cent of variance. However, tests of between-subjects effects indicated that these effects were not significant when looking individually at each measure of internationalization performance included in our model, total number of FMEs (Partial Eta squared= 0.003; $p= 0.059$; power= 47.2 per cent), time elapsed (Partial Eta squared= 0.003; $p= 0.575$; power= 8.6 per cent) nor export intensity (Partial Eta squared= 0.027; $p= 0.108$; power= 36.2 per cent). Significant covariates (geographical distance, firm age and firm's exporting experience) might explain the overall significance of the association, without a significant specific effect of networks on the dependent variables. The interaction between proactiveness and the use of networks did not contribute significantly to the model. Main effects are summarized in Table 4a. Table 4b and 4c show the effects of proactiveness and networks on individual dependent variables.

INSERT TABLE 4a

INSERT TABLE 4b

INSERT TABLE 4c

6. Discussion

Our results show that the firms whose entrepreneurs claimed to have searched actively for clients in foreign markets tend to export a higher share of their sales and to have entered a higher number of markets. To limit respondents' bias, we collected detailed qualitative information about their first FME, which corroborated their answers about proactiveness in the search for international business opportunities. Nonetheless, some caution should be exercised when interpreting the findings as the entrepreneurs may have been biased towards appearing "proactive" when describing their past actions. This could contribute to explain why a higher percentage was proactive than non-active in their first FME. An unexpected element of our findings is that proactiveness is *not* associated with the speed of internationalization. Firms that came across opportunities instead of proactively searching for them may in some cases take a shorter time to export than firms that actively searched for them. Fast internationalizers may be firms that found the first suitable international business opportunity fast because of random events, as opposed to being firms that found it fast because they proactively pursued it. This suggests that the link between internationalization speed and other aspects of the firm's subsequent internationalization behaviour is less clear than previously assumed, and may be strongly affected by serendipitous events (Bell, 1995; Knight and Cavusgil, 2004; Madsen and Servais, 1997).

An expected outcome was that the international experience of the entrepreneur affects the export inception of firms (Ellis, 2000; Coviello, 2006): more experienced entrepreneurs are more likely to search actively for business opportunities in new markets. However, experience does not lead to the use of networks. Experienced entrepreneurs preferred other methods to search for the first opportunity in new markets, and most of the entrepreneurs who

actively searched for the first export did not use networks to do so. Despite the well-documented importance of *guanxi* in China (Peng and Luo, 2000; Xu et al., 2009), in our sample networks were *not* the most common mechanism through which Chinese textile entered their first foreign market. Networks were also not significantly associated with a superior internationalization performance in terms of internationalization speed, intensity and scope. This contradicts the argument that networks support SMEs performance, and more so in the case of firms based in emerging markets (Coviello, 2006; Xin and Pearce, 1996; Sharma and Blomstermo, 2003; Musteen, Francis and Datta, 2010).

Li et al. (2008) argue that *guanxi*'s positive effects on firm performance decreases when markets become more competitive. A possible explanation for our findings is that the textile market is highly fragmented and competitive – China is the base for a high share of the global exports, and Chinese suppliers compete fiercely to acquire new clients, especially after the emergence of competitors based in economies characterized by lower costs, such as Vietnam (Thoburn, 2010). Networks may have ceased to be an effective means to support firm strategy, especially in international markets, and managers with more experience may adapt faster than managers with less experience. It is also possible that the companies examined searched for clients in foreign markets via networks but were unsuccessful, and hence switched to alternative mechanisms, which eventually led them to the discovery of their first international business opportunity.

7. Conclusion

This research contributes to the study of internationalization of Chinese low technology SMEs by shedding light on its inception – perhaps the most entrepreneurial phase, and yet a phase that is still under-represented in the literature. Our analysis contributes to the theory of international entrepreneurship by linking the study of the first international business

opportunity discovery with the study of the firm's subsequent internationalization speed, intensity and scope (Javalgi and Todd, 2011). It provides evidence of the importance of an active search for the first international business opportunity, which we found to be associated with firms that export a higher share of their output and to a larger number of countries. Proactiveness is likely to reflect entrepreneurial commitment and attitude to internationalization, which may determine whether the firm will continue to pursue an international orientation after having found the first client in a foreign market. This supports the view of internationalization as a strategically and actively pursued process (McDougall and Oviatt, 2000; Johanson and Vahlne, 2009; Beamish et al., 1999).

Managerial international experience had an effect on the internationalization process – proactiveness was associated with more experienced managers. This is in line with the arguments of the international entrepreneurship literature – internationalization is an entrepreneurial act involving people, whose skills affect the outcome (Shane, 2000; Coviello, 2006). The managerial implication is that hiring sales managers with higher international experience may help the firm finding new clients and penetrating new markets. It is important to take into account that, as Lu and Beamish (2006) show, internationalization does not necessarily have positive effects on SMEs' profits and revenues.

The proactiveness of the first search for international clients was not associated with internationalization speed. The implications are important for the theory of international new ventures and born globals (Madsen and Servais, 1997; Knight and Cavusgil, 2004). Companies that internationalize proactively are likely to become more successful internationalizers in terms of intensity and scope, but they may take longer than others to find their first client abroad. This suggests that some caution should be taken when using internationalization speed as a construct measuring a firm's internationalization performance.

An interesting avenue for further research would be to analyze the relationships between proactiveness and the speed of internationalization in a more diversified sample of firms, including companies operating in other sectors and countries.

We found that managers' international experience was not associated with the use of networks. Our study provides some new empirical evidence on the export patterns of Chinese textile firms, pointing to the need to further clarify the sectors, markets and circumstances in which networks generate superior performance, following the work of, among others, Luk et al. (2008), Li et al. (2008) and Luo and Hassan (2009). One of the limitations of our analysis is that it is based on a relatively small sample of textile exporters from only one region in China, which reduces the scope for further generalization.

Another limitation of this study is that it focuses on the first international sale that was completed. It does not provide detailed qualitative information about the antecedents of proactiveness. It would be useful to enquire further into the determinants and nature of proactiveness, for example by collecting more qualitative information about the process that sparks the active search for clients in new markets, and the specific characteristics that may lead managers to have a more "proactive" attitude, other than their experience (Shepherd and De Tienne, 2005; Zahra et al., 2005). It is worth noting that proactiveness, as all measures of entrepreneurial behavior based on self perception, may suffer from response bias. It would be interesting to expand the scope of the analysis to failed searches for international business opportunities, as opposed to focusing only on the searches that led to an international sale. Further studies on proactiveness would contribute to development of the theory of international entrepreneurship, the inception of internationalization and the network approach.

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Table 1: Descriptive Statistics

Mechanisms of international business opportunity recognition				
	n	%		
Social ties				
Family	1	0.9		
Friends (Aq)	5	4.6		
Colleagues	17	15.6		
Client Referrals	9	8.3		
Advertisement	17	15.6		
Trade Fairs	60	55		
Total	109	100		
Activeness	n	%		
Manager played an active role in establishing 1st FME	63	57.7		
Manager had a "non-active" role	46	42.2		
Total	109	100		
Other variables (n=109)	Mean	SD	Range	95% CI around mean
Firm age (years)	8.09	5.56	0 to 28	7.01 to 9.21
Firm size (# employees)	92.21	66.73	4 to 250	79.65 to 105.49
Export intensity (%)	58.56	32.72	5 to 100	30.01 to 34.71
Number of FMEs	7.73	6.17	1 to 30	6.49 to 8.96
Time elapsed to export	3.03	4.34	0 to 20	2.18 to 3.79
Exporting time	5.31	3.61	0 to 19	4.66 to 6.08
Managerial intl. experience	5.48	4.87	1 to 30	4.63 to 6.41

Source: Authors' elaboration

Table 2. Predictors of Proactiveness of Senior managers establishing the firm's first FME

Predictor	B	Standard Error	Wald	p	Odds ratio
Use of social networks (yes)	-2.536	0.580	19.151	0.000	0.079
Managerial international Experience	0.172	0.063	7.495	0.006	1.187
Foreign market's GDP per head	0.000	0.000	0.416	0.516	1.000

Source: Authors' elaboration

Table 3. Predictors of using social networks for the establishment of first FME

Predictor	B	Standard Error	Wald	p	Odds ratio
Managerial international Experience	0.089	0.049	3.322	0.068	1.094
Foreign market's GDP per head	0.000	0.000	0.004	0.951	1.000
Proactiveness (yes)	-2.442	0.552	19.579	0.000	0.087

Source: Authors' elaboration

Table 4a. Predictors of Internationalization performance (Multivariate tests)

Independent variables	Hotteling's	Hypothesis		Partial Eta		Power
	Trace	F	df	Error df	Sig.	
Proactiveness	0.173	5.436	3.000	94.000	0.002	0.928
Networks	0.104	3.257	3.000	94.000	0.025	0.731
Proactiveness*Networks	0.056	1.747	3.000	94.000	0.163	0.443
Managerial international experience	0.018	0.551	3.000	94.000	0.649	0.160
Geographical distance	0.097	3.024	3.000	94.000	0.033	0.695
GDP of foreign market	0.035	1.088	3.000	94.000	0.358	0.286
Firm size	0.018	0.572	3.000	94.000	0.635	0.164
Firm age	14.178	444.229	3.000	94.000	0.000	1.000
Exporting time	5.177	162.224	3.000	94.000	0.000	1.000

Table 4b. Estimates for Proactiveness

Dependent Variable	Proactiveness	Mean	Std. Error	Lower CI	Upper CI
Export Intensity in % exports over total sales	Non active	45.912 ^a	4.200	37.576	54.249
	Active	72.115 ^a	5.392	61.413	82.817
Number of years from establishment until export started	Non active	2.862 ^a	.177	2.510	3.213
	Active	2.905 ^a	.227	2.454	3.357
Total number of exports (natural logarithm)	Non active	1.505 ^a	.111	1.285	1.726
	Active	1.963 ^a	.143	1.679	2.246

a. Covariates appearing in the model: Manager's international experience in years, GDP of foreign market at time of entry, Port to Port distance with foreign market, Firm size in number of employees, Firm's exporting experience in years, Firm age in years.

Table 4c. Estimates for Networks

Dependent Variable	FME mechanism	Mean	Std. Error	Lower CI	Upper CI
Export Intensity in % exports over total sales	Other method	53.406 ^a	3.479	46.500	60.313
	Networks	64.621 ^a	5.906	52.897	76.345
Number of years from establishment until export started	Other method	2.965 ^a	.147	2.674	3.257
	Networks	2.802 ^a	.249	2.307	3.296
Total number of exports (natural logarithm)	Other method	1.909 ^a	.092	1.726	2.092
	Networks	1.559 ^a	.156	1.249	1.870

a. Covariates appearing in the model: Manager's international experience in years, GDP of foreign market at time of entry, Port to Port distance with foreign market, Firm size in number of employees, Firm's exporting experience in years, Firm age in years.